

# PROPOSED BUDGET SUMMARY

FISCAL YEAR 2005



SHELBY COUNTY GOVERNMENT

A C Wharton, Jr., Mayor

**Shelby County, Tennessee  
Proposed Budget  
Fiscal Year Ending June 30, 2005**

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April 29, 2003

Marilyn Loeffel

Chairperson

Shelby County Board of Commissioners

Dr. Cleo C. Kirk

Chairman, Budget Committee

Shelby County Board of Commissioners

Dear Chairperson Loeffel and Chairman Kirk:

The proposed operating (general fund), debt service and capital improvement budget summaries for the fiscal year ending June 30, 2005 are hereby submitted for your consideration. As required by the Charter, all other elected officials budgets have been included, as submitted.

We ask you to note a number of salient features of this proposed budget:

1. It contains a detailed capital plan which, if adopted, will present opportunities to reduce the amount of tax dollars needed to support debt service;
2. It continues the process of shrinking the size of County Government; and
3. It builds on the operating surpluses generated this year, allowing us to meet our goal of replenishing the General Fund and retaining our healthy bond ratings.

We ask that you review this document not merely as a budget, but as an explicit “debt management/reduction plan”. I say this because it has been made resoundingly clear to me, particularly from our business community, that their willingness to support the measures called for herein is heavily contingent upon our ability to set forth a debt reduction plan and to demonstrate that we are willing to adopt and adhere to such a plan.

As discussed earlier, new property taxes totaling \$.17 have been used to cover the debt service requirement for fiscal '05. Other increases to operating expenses, including a 2% salary increase for employees (effective October 1<sup>st</sup>), increases to the retirement system and health insurance funds, as well as other expenses detailed in the full report to follow, are funded, in part, by the following five new revenue sources:

Vector control fee	\$1,400,000
Litigation tax for	
General Sessions Judges	1,000,000
Increased vehicle registration fees	600,000
Change to TCA traffic tickets	600,000
Misdemeanor fees	225,000

Additionally, in order to balance the budget, a line item titled "other new revenue" is included in the amount of \$7,922,820. This line item is to be comprised of revenues generated from new legislative initiatives, a list of which is found attached. Alternatively, new real estate taxes (\$.06) or further expenditure reductions will be necessary.

To realize the goals sought by this budget in the short and long term requires that we continue our vigorous efforts to make Shelby County Government more efficient and to reduce our debt by adopting alternate revenue sources such as those listed herein, or others the Commission may wish to identify. We simply cannot, in all honesty, represent to the citizens of Shelby County that the financial future of Shelby County is sound or that they will continue to enjoy a high quality of life without adopting new ways of doing business, both on the revenue side and the expenditure side.

I recognize fully that there is no such thing as a "popular" new source of revenue. I am convinced, however, that the adoption of one or more of the suggested new revenue sources in modest amounts, while subject to protest, would allow us to begin the much delayed process of weaning ourselves from a heavy dependence on the property tax. I know that you read daily, as I do, of the misery inflicted by our reliance on the property tax, the exodus of businesses, and the increasing difficulty we face in recruiting new industry to Shelby County. As I submit this document, I am painfully aware that the process of bringing new industry to Shelby County is going to be complicated even more by recent adverse actions by the United States Environmental Protection Agency which designated Shelby County as a "nonattainment" area for clean air purposes. This underscores the need to deal promptly and effectively with our escalating property taxes.

A number of changes have been made in the 2005 proposed budget compared to the 2004 budget. These changes are detailed in the attached budget summaries.

Please note that property taxes in our proposed budget are based on a penny value of \$1,390,000. New assessment rolls provided by our County Assessor place growth at approximately 1%. This is far less than what we had hoped for, but this is now indicative of what the future holds for the next several years.

Debt Service Fund/Capital Improvement Program

Our recent success with the conversion of short-term debt to long term debt and the companion swap agreement had a very favorable impact on our debt service requirements in future years. However, debt service requirements will continue to increase until 2014. As we discussed last year, it is critical that we reign in our capital spending and the attached Capital Improvement Budget has been scaled back to reflect this Administration's commitment to get the County's debt under control.

Over the next several weeks, we will be discussing a plan with you that will reduce the total debt outstanding (fiscal '08-'09) and also reduce the amount of taxes required to support our debt (fiscal '14). In the interim, the following increases to the debt service fund are indicated:

'05	\$.17
'08	\$.21
'12	\$.15

As you know, almost 60% of the debt issued by Shelby County in the last decade has been used for school purposes. I am again recommending that an adequate facilities tax be implemented and used to pay for school debt and debt service. By applying the projected revenue of \$5 million per year to the debt service fund, the above requirements can be reduced to the following:

'05	\$.17
'08	\$.15
'12	\$.18

The increase in fiscal '12 would represent the final increase. A \$.07 decrease is projected in fiscal '16 and no further changes would be contemplated beyond that time.

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Conclusion:

Last year, I discussed with you the three goals we had for the budget. They were:

1. Rebuild the general fund.
2. Get control of the debt.
3. Shrink government.

I am pleased to report that our joint efforts have been successful in each case. We will finish this year with a surplus of at least six million dollars. The debt is now subject to a plan that controls future growth and government is smaller than a year ago. Of course, we can not relax. All three of the above goals need further attention.

I ask that you accept and review this document on the basis of its candor and reality. I would respectfully submit that to do otherwise would continue to lull our citizens into a false sense of security and to a belief that we can maintain a high quality of life without paying the reasonable costs such a standard of living requires.

You will receive the full set of working documents, including the program budget narratives, within the next few days. I pledge to work with you over the next several weeks to find additional revenue opportunities, as well as find additional areas where expenditures can be reduced. Working together, we will finalize a budget that is fair to all citizens and will provide hope for the future through fiscally responsible management of our limited resources.

Sincerely,

A C Wharton, Jr.  
Mayor

C: Commissioner Joyce Avery  
Commissioner Walter Bailey, Jr.  
Commissioner Julian Bolton  
Commissioner Joe Ford  
Commissioner Michael Hooks  
Commissioner David Lillard

Commissioner Deidre Malone  
Commissioner Tom Moss  
Commissioner Linda Rendtorff  
Commissioner Bruce Thompson  
Commissioner John Willingham

**Countywide  
Proposed Budget Summary  
Fiscal Year Ending June 30, 2005**

**Revenue – Total of \$981,714,045**

Local taxes are approximately 70% of total countywide revenue, with current year property taxes accounting for almost 60% of countywide revenue. Federal and State revenue, mostly grants and reimbursement for the Correction Center, are an additional 16% of countywide revenue. The remaining 14% is primarily other local revenue and elected official fines and fees.

**Expenditures** are summarized as:

Education	\$322,560,000	33%
Criminal Justice	251,838,372	26%
Debt Service	142,078,942	14%
Health	80,818,580	8%
Other	<u>184,418,151</u>	19%
Total	<u>\$981,714,045</u>	

Debt service and the general fund are addressed in separate sections herein. Education funding is being addressed separately and will not be addressed in this budget document.

**Personnel**

Personnel expense accounts for 68% of our General Fund budget. Obviously, the key to reducing this expense is to reduce the number of employees. The following schedule displays the number of employees paid per month from July, 2002 through March, 2004. From August, 2002 through March, 2004, there has been a reduction of 513 employees. There has been a fairly steady decline in the number of employees except in November 2003 when we added almost 400 Head Start employees.

**Countywide  
Personnel Paid by Month  
July 2002 through March 2004**

July, 2002	7,220	July, 2003	6,586
August	7,276	August	6,542
September	7,053	September	6,431
October	7,061	October	6,484
November	7,128	November	6,790 (1)
December	7,046	December	6,781
January, 2003	7,016	January, 2004	6,765
February	6,970	February	6,847
March	7,005	March	6,763
April	6,967		
May	6,801		
June	6,714		
Total	84,257	Total	59,989
Months	12	Months	9
Average	7,021	Average	6,665

(1) Addition of Head Start durational employees. No impact on the General Fund.



## COUNTYWIDE REPORT

ACCT	DESCRIPTION	FY 01 ACTUAL	FY 02 ACTUAL	FY 03 ACTUAL	FY 04 YTD Actual 03/31/04	FY 04 BUDGET	FY 05 PROPOSED BUDGET
	Local Taxes	-489,927,614	-604,609,455	-620,977,185	-611,603,239	-656,630,816	-687,573,000
	Local Revenue	-63,363,518	-61,389,480	-65,603,478	-45,999,126	-73,600,264	-70,893,788
	State Revenue	-100,791,347	-108,471,657	-109,906,654	-66,309,192	-125,105,250	-121,218,584
	Federal Revenue	-25,877,749	-27,211,294	-26,919,944	-18,692,804	-34,458,344	-32,556,054
	Patient Service Revenue	-12,660,686	-13,966,744	-12,707,186	-9,287,279	-14,499,110	-2,774,550
	Elected Officials' Fines & Fees	-47,641,570	-54,284,328	-54,335,743	-41,969,590	-52,371,422	-54,402,578
	Other Revenue	-12,068,022	-15,428,973	-8,770,164	-2,203,636	-5,105,735	-12,295,491
	<b>Revenue</b>	<b>-752,330,506</b>	<b>-885,361,931</b>	<b>-899,220,354</b>	<b>-796,064,866</b>	<b>-961,770,941</b>	<b>-981,714,045</b>
	Salaries	223,276,729	249,794,852	268,956,051	193,632,258	263,940,331	257,195,918
	Fringe Benefits	44,955,691	46,459,519	52,422,552	48,263,003	66,622,248	73,702,220
	<b>Salaries &amp; Fringe Benefits</b>	<b>268,232,420</b>	<b>296,254,371</b>	<b>321,378,603</b>	<b>241,895,261</b>	<b>330,562,579</b>	<b>330,898,138</b>
	Supplies	22,826,437	26,085,265	26,181,596	14,047,354	28,757,899	26,490,571
	Services	9,639,152	9,210,276	8,469,861	5,568,178	14,158,124	13,320,484
	Professional & Contracted Services	72,372,964	74,031,002	75,616,220	47,521,728	89,512,043	82,319,256
	Rent, Utilities & Maint	23,540,164	26,000,551	27,153,105	19,913,038	31,027,113	29,962,470
	Interdepartmental Charges/Expenditures	-4,760,395	-4,395,438	-4,322,326	-3,546,597	-5,407,455	-5,198,132
	Intergovernmental Expenditures	678,159	1,290,116	920,806	559,519	1,645,404	1,096,099
	Asset Acquisitions	4,237,439	4,614,625	3,975,679	1,771,877	8,530,393	7,160,478
	<b>Operating &amp; Maintenance</b>	<b>128,533,920</b>	<b>136,836,397</b>	<b>137,994,941</b>	<b>85,835,097</b>	<b>168,223,521</b>	<b>155,151,226</b>
	Debt Services	96,765,497	99,825,007	114,064,133	75,538,333	122,376,188	142,078,942
	<b>Debt Services</b>	<b>96,765,497</b>	<b>99,825,007</b>	<b>114,064,133</b>	<b>75,538,333</b>	<b>122,376,188</b>	<b>142,078,942</b>
	Special Funded Projects	252,106,915	340,502,471	351,939,630	328,071,523	366,178,747	362,750,773
	<b>Special Funded Projects</b>	<b>252,106,915</b>	<b>340,502,471</b>	<b>351,939,630</b>	<b>328,071,523</b>	<b>366,178,747</b>	<b>362,750,773</b>
	Grants	1,983,166	1,604,365	1,348,425	475,882	426,250	456,000
	<b>Grants</b>	<b>1,983,166</b>	<b>1,604,365</b>	<b>1,348,425</b>	<b>475,882</b>	<b>426,250</b>	<b>456,000</b>
	Contingencies & Restrictions	0	0	0	0	-4,168,587	-723,990
	<b>Contingencies &amp; Restrictions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4,168,587</b>	<b>-723,990</b>
	Operating Transfers In	-32,716,204	-46,595,817	-56,472,797	-23,982,727	-43,352,220	-43,181,387
	<b>Operating Transfers In</b>	<b>-32,716,204</b>	<b>-46,595,817</b>	<b>-56,472,797</b>	<b>-23,982,727</b>	<b>-43,352,220</b>	<b>-43,181,387</b>
	Operating Transfers Out	31,792,994	43,631,923	50,729,989	21,212,386	39,320,322	40,409,541
	<b>Operating Transfers Out</b>	<b>31,792,994</b>	<b>43,631,923</b>	<b>50,729,989</b>	<b>21,212,386</b>	<b>39,320,322</b>	<b>40,409,541</b>
	Other Financing Sources	185,083	-248,119	0	-1,060,526	-863,307	0
	<b>Other Financing Sources</b>	<b>185,083</b>	<b>-248,119</b>	<b>0</b>	<b>-1,060,526</b>	<b>-863,307</b>	<b>0</b>
	Planned Fund Balance Change	0	0	0	0	-16,932,552	-6,125,198
	<b>Planned Fund Balance Change</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-16,932,552</b>	<b>-6,125,198</b>
	<b>Expenditures</b>	<b>746,883,791</b>	<b>871,810,598</b>	<b>920,982,924</b>	<b>727,985,229</b>	<b>961,770,941</b>	<b>981,714,045</b>
	<b>TOTAL</b>	<b>-5,446,715</b>	<b>-13,551,333</b>	<b>21,762,570</b>	<b>-68,079,637</b>	<b>0</b>	<b>0</b>

# **General Fund Proposed Budget Summary Fiscal Year Ending June 30, 2005**

**Changes from Prior Year:** Significant changes from the prior year are:

- 1) A transfer from the Codes Enforcement Fund will cover net expenditures of the Office of Planning and Development. This will save the County approximately \$800,000.
- 2) Juvenile Court contracts for the operations of a Juvenile Center and receives reimbursement for this cost of approximately \$7 million from the State. This contract, previously accounted for in the General Fund, will be accounted for in the Grants Fund. This will more clearly present the cost to the County for operations of Juvenile Court.
- 3) In fiscal 2004, lapse time was budgeted in most individual departments. In fiscal 2005, lapse time is only budgeted in the following areas:
  - a) Health Division – because they are 50% funded by the City of Memphis.
  - b) Sheriff – due to the large size and somewhat different turnover rate than other offices.
  - c) Commissioners' Contingency – 3.7% of salaries and benefits of all other offices.

**Revenue:** General Fund revenue has increased at a rate of 3.3% since 1994. However, only 1.6% of the increase is revenue growth; the remainder is from property tax rate increases. Historically, there has been an annual 2% – 3% increase in property tax assessments. However, there has been virtually no growth in property tax assessments for both the current year and next year. Revenue growth is likely to be negligible for the foreseeable future unless an elastic revenue source is found.

**New revenues** are proposed to balance the budget for 2005 as follows:

Litigation Tax for General Sessions Judge Salaries	\$1,000,000
Increase vehicle registration fees	600,000
Misdemeanor fee	400,000
Sheriff traffic tickets based on TCA, not ordinance	600,000
Other revenue requiring legislative action	<u>7,922,820</u>
Total	<u>\$10,522,820</u>

Growth of current revenue will not cover reasonable raises and fringe benefit increases. Most potential new revenues have an immediate benefit but have limited growth potential and, as such, do not provide a long term solution. Unless a major revenue source is found that provides inflationary increases, County Government has the options of raising taxes and fees on a regular basis, reducing the size of County Government to eliminate expenditure increases or a combination of the above.

**Expenditures:** The following table shows spending by major area for fiscal years 2001 through 2005:

	<b><u>FY01</u></b>	<b><u>FY02</u></b>	<b><u>FY03</u></b>	<b><u>FY04</u></b>	<b><u>FY05</u></b>
Criminal Justice	52.1%	58.4%	60.0%	58.0%	59.1%
Health	20.0%	17.3%	16.7%	17.0%	16.6%
Retirees' Insurance	2.3%	2.5%	2.7%	3.2%	3.6%
Community Services	3.5%	2.9%	2.7%	2.6%	2.7%
Public Works	1.9%	2.1%	2.1%	2.0%	2.4%
Administrative and other	20.2%	16.8%	15.8%	17.2%	15.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Actual expenditures from 1994 through 2003 have increased an average of 7.3% per year. The following table shows actual expenditures from 2001 through 2003 and the amended budget for 2004. The Mayor's Administration excludes Central Operations, the Health Loop which was moved to the grants fund in 2002 and the building litigation tax to eliminate the non recurring items and the 2004 budget amounts do not include planned increase in fund balance as this is not an expenditure:

<b><u>Year Ended</u></b> <b><u>June 30:</u></b>	<b><u>Mayor's</u></b> <b><u>Administration</u></b>	<b><u>Incr.</u></b> <b><u>%</u></b>	<b><u>Sheriff</u></b>	<b><u>Incr.</u></b> <b><u>%</u></b>	<b><u>Other</u></b> <b><u>Elected</u></b> <b><u>Officials</u></b>	<b><u>Incr.</u></b> <b><u>%</u></b>	<b><u>Total</u></b>	<b><u>Incr.</u></b> <b><u>%</u></b>
2001	87,188,716		97,629,992		60,752,098		290,242,767	
2002	87,592,009	0.4%	123,032,525	26.0%	64,170,982	5.6%	307,968,510	7.4%
2003	93,553,080	6.8%	136,633,506	11.1%	67,276,888	4.8%	324,989,418	7.5%
2004	95,509,910	0.0%	126,116,240	-7.7%	69,677,326	3.6%	324,553,446	-1.3%
Average		3.3%		9.7%		4.9%		5.2%

# General Fund

## Analysis of Budget Changes

### Fiscal 2005 Compared to 2004

The change in revenue consists of the following:

Budget for FY04	\$327,815,593
New revenue	10,522,820
State reimbursement to Juvenile Court moved to Grant Fund	(7,221,248)
Memphis reimbursement for elections	(1,991,014)
Memphis reimbursement for Office of Planning & Development	(810,683)
Gain on sale of Sheriff's substation	(1,000,000)
Current property tax - 1% increase	2,145,000
Other property tax increases	1,324,000
Other changes, net	<u>1,060,275</u>
Proposed budget for FY05	<u><u>\$331,844,743</u></u>

Significant changes in expenditures and transfers are summarized below.

Budget for FY04	\$327,815,593
Employee raises of 2% effective October 1	2,600,000
Retirement	2,000,000
Group Health Insurance	3,088,341
Retirees Health Insurance	1,500,000
Convention Center Operations	1,000,000
Convention Center Litigation Fees	1,000,000
Pyramid	552,199
Juvenile Center contract moved to Grants Fund	(7,221,248)
Codes funding of Office of Planning & Development	(779,299)
Correction increased cost and reduced indirect cost allocation	1,391,986
Libraries reduced funding	(1,787,000)
Oakville	(2,000,000)
Fire note payment	600,000
Program increases detailed separately	2,173,456
Other changes, net	<u>(49,285)</u>
Proposed Budget for FY05	<u><u>\$331,884,743</u></u>

**General Fund  
Budget Increases Requested  
Fiscal Year Ending June 30, 2005**

**Administration**

The Administration has added a Grants Management section in the CAO's office with three new positions and the Public Defender converted two positions from temporary to permanent and added \$40,000 to operating and maintenance expense. These are being funded by budget reductions in other areas of the Administration. In addition, a Federally mandated Storm Water program in the County Engineer's Office has been added by eliminating other costs in the County Engineer.

**Sheriff**

The Sheriff has increased his budget for replacement of patrol cars and made various other changes with cost reductions offsetting all cost increases. The General Sessions Criminal Judges have added a program with no net cost to the County.

**Other Elected Officials**

New programs and cost increases requested are listed below, along with offsetting decreases, if any, by each office.

**Attorney General:**

Transfer seven (7) positions funded by Grants to the General Fund	
Effective 10-1-04 with fringe benefits	360,483
New Child Advocacy attorney with fringe benefits	72,089
Increase attorney pay scale with fringe benefits	<u>446,612</u>
Total	<u>879,184</u>

**Chancery Court Clerk**

Increase in Operating & Maintenance expense	<u>68,110</u>
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**Juvenile Court Clerk**

Fund seven (7) temporary positions	84,000
Pay increases for six (6) positions	75,906
Fringe Benefits on these increases	<u>19,000</u>
Total	<u>178,906</u>

Juvenile Court	
Add PAS Executive (Psychologist)	65,000
Transfer two positions from grants	75,906
Fund Assistant Manager A position 862188	45,029
Eliminate two positions	(43,677)
Reduce salaries budgeted for temporaries	(53,000)
Fringe Benefits on the above	29,000
Budget overtime	<u>50,000</u>
Total	<u>168,258</u>
Assessor	
Fund 12 positions not funded in FY04	307,882
Reduction in temporary positions pay	(180,140)
Eliminate 1 permanent and 6 temporary positions	(119,716)
Increase in overtime	102,700
Fringe Benefits on the above	100,000
Decrease in Operating & Maintenance expense	<u>(153,460)</u>
Total	<u>57,266</u>
County Clerk	
Fund 3 positions not funded in FY04	95,160
Increase amounts for temporaries	21,889
Overtime increase	8,000
Fringe benefits on the above	33,000
Increase in Operating & Maintenance expenses	<u>91,796</u>
Total	<u>249,845</u>
Register	
Add 2 new positions	67,748
Fringe benefits on these positions	<u>22,500</u>
Total	<u>100,248</u>
Trustee	
Salary increases appointed positions	10,277
Reclassifications	17,900
Temporary positions increases	42,524
Fringe benefits on these increases	8,700
Increase in Operating & Maintenance expenses	<u>300,440</u>
Total	<u>379,843</u>
Total increases	<u><u>2,173,456</u></u>

## GENERAL FUND REPORT

ACCT	DESCRIPTION	FY 01 ACTUAL	FY 02 ACTUAL	FY 03 ACTUAL	FY 04 YTD Actual 03/31/04	FY 04 BUDGET	FY 05 PROPOSED BUDGET
	Local Taxes	-182,061,923	-204,116,571	-198,770,769	-209,896,608	-222,491,000	-226,410,000
	Local Revenue	-32,842,175	-25,845,493	-28,364,792	-20,752,775	-30,286,063	-27,052,324
	State Revenue	-21,886,446	-20,060,856	-19,569,483	-13,466,142	-19,601,786	-12,838,183
	Federal Revenue	-11,783	-2,562	-3,600	-11,133	-11,800	-11,800
	Patient Service Revenue	-680,491	-808,871	-482,205	-576,457	-709,110	-982,750
	Elected Officials' Fines & Fees	-43,860,010	-53,548,254	-53,396,186	-40,727,594	-50,733,863	-53,641,378
	Other Revenue	-9,257,054	-5,048,228	-3,327,955	-1,619,694	-3,981,971	-10,908,308
	<b>Revenue</b>	<b>-290,599,882</b>	<b>-309,430,835</b>	<b>-303,914,990</b>	<b>-287,050,403</b>	<b>-327,815,593</b>	<b>-331,844,743</b>
	Salaries	155,402,355	173,824,927	188,976,039	130,904,554	172,337,787	176,446,335
	Fringe Benefits	32,658,968	31,829,695	36,979,192	32,669,952	42,998,077	49,552,331
	<b>Salaries &amp; Fringe Benefi</b>	<b>188,061,323</b>	<b>205,654,622</b>	<b>225,955,231</b>	<b>163,574,506</b>	<b>215,335,864</b>	<b>225,998,666</b>
	Supplies	12,818,081	14,086,751	14,382,540	6,701,828	13,011,040	13,494,515
	Services	4,717,507	5,331,294	5,152,834	3,059,507	5,950,793	5,622,682
	Professional & Contracted Services	29,907,863	32,334,108	34,819,460	25,440,504	38,429,204	30,813,604
	Rent, Utilities & Maint	14,186,355	15,872,993	16,430,279	11,178,386	17,782,949	17,095,153
	Interdepartmental Charges/Expenditures	-1,537,080	-1,569,513	-1,631,082	-1,234,703	-1,729,513	-1,729,513
	Intergovernmental Expenditures	144,593	180,621	197,465	158,472	200,000	200,000
	Asset Acquisitions	1,665,125	1,017,232	449,686	917,782	2,585,192	3,302,613
	<b>Operating &amp; Maintenanc</b>	<b>61,902,444</b>	<b>67,253,486</b>	<b>69,801,182</b>	<b>46,221,776</b>	<b>76,229,665</b>	<b>68,799,054</b>
	Debt Services	4,091,237	2,366,776	2,156,213	2,255,028	3,172,738	2,700,000
	<b>Debt Services</b>	<b>4,091,237</b>	<b>2,366,776</b>	<b>2,156,213</b>	<b>2,255,028</b>	<b>3,172,738</b>	<b>2,700,000</b>
	Special Funded Projects	27,743,685	27,941,437	28,176,130	21,413,179	33,574,968	29,315,167
	<b>Special Funded Projects</b>	<b>27,743,685</b>	<b>27,941,437</b>	<b>28,176,130</b>	<b>21,413,179</b>	<b>33,574,968</b>	<b>29,315,167</b>
	Grants	1,914,166	1,529,365	1,348,425	363,750	426,250	456,000
	<b>Grants</b>	<b>1,914,166</b>	<b>1,529,365</b>	<b>1,348,425</b>	<b>363,750</b>	<b>426,250</b>	<b>456,000</b>
	Contingencies & Restrictions	0	0	0	0	-6,882,192	-2,084,116
	<b>Contingencies &amp; Restrictions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-6,882,192</b>	<b>-2,084,116</b>
	Operating Transfers In	-7,350,775	-15,991,185	-25,960,081	-9,780,027	-15,667,165	-14,832,304
	<b>Operating Transfers In</b>	<b>-7,350,775</b>	<b>-15,991,185</b>	<b>-25,960,081</b>	<b>-9,780,027</b>	<b>-15,667,165</b>	<b>-14,832,304</b>
	Operating Transfers Out	13,880,687	19,214,009	23,512,318	11,852,852	18,363,318	16,914,635
	<b>Operating Transfers Out</b>	<b>13,880,687</b>	<b>19,214,009</b>	<b>23,512,318</b>	<b>11,852,852</b>	<b>18,363,318</b>	<b>16,914,635</b>
	Other Financing Sources	0	0	0	-1,060,526	0	0
	<b>Other Financing Sources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,060,526</b>	<b>0</b>	<b>0</b>
	Planned Fund Balance Change	0	0	0	0	3,262,147	4,577,641
	<b>Planned Fund Balance Change</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,262,147</b>	<b>4,577,641</b>
	<b>Expenditures</b>	<b>290,242,767</b>	<b>307,968,510</b>	<b>324,989,418</b>	<b>234,840,538</b>	<b>327,815,593</b>	<b>331,844,743</b>
	<b>TOTAL</b>	<b>-357,115</b>	<b>-1,462,325</b>	<b>21,074,428</b>	<b>-52,209,865</b>	<b>0</b>	<b>0</b>

**Debt Service Fund  
Proposed Budget  
Fiscal Year Ending June 30, 2005**

The recent conversion of short-term debt to long term debt had a favorable impact on debt service requirements for future years. However, the current level of debt and projected capital requirements will result in debt service requirements continuing to increase until 2014. Of course, changes in interest rates and other future events will effect these projections. The most important step towards controlling our debt and ending the increase in debt service expenditures is to minimize our capital expenditures. The separate proposed Capital Improvement Projects budget has been scaled back to reflect the Administration's commitment to get the County debt under control.

In order to provide for all future projected debt service costs, a 40 cent property tax rate increase would be required for fiscal 2005. However, this would be taxing the citizens significantly in advance of our actual needs and we would accumulate large balances that would be tempting to spend. Another alternative is to raise taxes each year for the next eight years. The Administration recommends a middle ground requiring the following property tax increases for debt service:

<u>Fiscal Year</u>	<u>Rate Increase</u>
2005	17 cents
2008	21 cents
2012	15 cents

As we work together to reduce capital requirements, find alternative revenue sources and improve our debt structure, our goal is to reduce or eliminate the 2008 and 2012 requirements for property tax increases.

Debt Service costs are projected to increase from their budgeted amount of \$119 million in fiscal 2004 to \$198 million in fiscal 2014.



## DEBT SERVICE FUND REPORT

ACCT	DESCRIPTION	FY 01 ACTUAL	FY 02 ACTUAL	FY 03 ACTUAL	FY 04 YTD Actual 03/31/04	FY 04 BUDGET	FY 05 PROPOSED BUDGET
	Local Taxes	-80,304,382	-87,315,064	-89,032,325	-93,762,850	-100,127,000	-126,030,000
	Local Revenue	-1,123,592	-1,388,329	-2,976,468	-1,700,490	-2,439,619	-2,227,005
	State Revenue	-1,431,797	-1,316,612	-1,326,806	-1,334,939	-1,334,940	-1,350,957
	Elected Officials' Fines & Fees	-2,827,611	0	0	-756,110	-900,000	0
	Other Revenue	-1,495,723	-9,402,922	-4,463,158	5,162	-2,145	-1,845
	<b>Revenue</b>	<b>-87,183,105</b>	<b>-99,422,927</b>	<b>-97,798,757</b>	<b>-97,549,227</b>	<b>-104,803,704</b>	<b>-129,609,807</b>
	Professional & Contracted Services	0	1,590	48,183	30,855	63,061	55,061
	<b>Operating &amp; Maintenanc</b>	<b>0</b>	<b>1,590</b>	<b>48,183</b>	<b>30,855</b>	<b>63,061</b>	<b>55,061</b>
	Debt Services	92,674,260	97,365,478	111,504,784	73,180,964	119,203,450	139,017,952
	<b>Debt Services</b>	<b>92,674,260</b>	<b>97,365,478</b>	<b>111,504,784</b>	<b>73,180,964</b>	<b>119,203,450</b>	<b>139,017,952</b>
	Contingencies & Restrictions	0	0	0	0	3,419,236	1,814,870
	<b>Contingencies &amp; Restrictions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,419,236</b>	<b>1,814,870</b>
	Operating Transfers In	-14,367,609	-16,339,708	-15,211,603	-2,419,133	-9,968,560	-12,903,076
	<b>Operating Transfers In</b>	<b>-14,367,609</b>	<b>-16,339,708</b>	<b>-15,211,603</b>	<b>-2,419,133</b>	<b>-9,968,560</b>	<b>-12,903,076</b>
	Operating Transfers Out	6,601,952	3,932,262	10,532,007	1,107,371	1,750,000	1,625,000
	<b>Operating Transfers Out</b>	<b>6,601,952</b>	<b>3,932,262</b>	<b>10,532,007</b>	<b>1,107,371</b>	<b>1,750,000</b>	<b>1,625,000</b>
	Other Financing Sources	185,083	-248,119	0	0	0	0
	<b>Other Financing Sources</b>	<b>185,083</b>	<b>-248,119</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Planned Fund Balance Change	0	0	0	0	-9,663,483	0
	<b>Planned Fund Balance Change</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-9,663,483</b>	<b>0</b>
	<b>Expenditures</b>	<b>85,093,686</b>	<b>84,711,503</b>	<b>106,873,371</b>	<b>71,900,057</b>	<b>104,803,704</b>	<b>129,609,807</b>
	<b>TOTAL</b>	<b>-2,089,419</b>	<b>-14,711,424</b>	<b>9,074,614</b>	<b>-25,649,170</b>	<b>0</b>	<b>0</b>

**Capital Improvement Program  
Proposed Budget  
Fiscal Years 2005 Through 2009**

The County's share of allocations in the Capital Improvement Program for fiscal years 2005 through 2009 totals \$502,150,417, which is a reduction of \$30,978,598 compared to the current program. Of this, \$334.6 million or 67% is allocated to schools.

The program for fiscal 2005 shows an increase of \$24,599,397 because \$28,451,361 of the fiscal 2004 program will not be appropriated in fiscal 2004, but will be carried forward to the 2005 program

The County's share of allocations of the proposed program by year are:

2005	\$142,491,617
2006	109,497,400
2007	92,692,400
2008	79,127,500
2009	78,341,500

## **I. HISTORY OF RECENT DEBT GROWTH (HOW WE GOT THERE)**

### **1. Migration.**

Over the past decade, Shelby County has grown by approximately 80,000 people. During the same period and discounting annexations, the City of Memphis has lost 26,000 people. As the City's population moved to the suburbs and unincorporated areas, the County School Board was forced to build more schools and to fund these new schools using the ADA distribution formula (the current "655 Agreement" call for County funding of \$20 million a year and City funding of \$57 million a year through fiscal '06).

### **2. Debt.**

From 1995 to the present, the County's debt has increased from \$755 million to over 1.6 billion. The corresponding debt service requirement has increased from \$53 million to \$118 million. On today's tax penny, this represents an increase of \$.46. Next year, the debt service requirement will be \$133 million and will require a \$.17 property tax increase to balance the debt service fund. In spite of scaling back the County's CIP program in upcoming years, additional debt service increases of \$.40 are anticipated by fiscal year 2014. Fifty six percent of the County's debt is now school related.

### **3. Expenditure Growth.**

During the same period, beginning in 1995, the County's general fund expenditures have increased at an average annual rate of 7.4%, or \$114 million (\$.82 on today's tax penny).

Within the general fund, it's interesting to note where the expenditure growth occurred from 1995 through 2003:

	Avg. p/year	\$ increase
Law Enforcement	19.2%	\$81,690,064
Judicial	6.7%	\$14,132,426
Elected Officials	7.7%	\$ 9,791,722
Administration	1.0%	\$ 9,677,289
(55% of Administration is in hospitals and health)		

At the same time, funding to schools increased from \$252 million to \$320 million, or \$68 million (\$.49 on the tax penny).

### **4. Recent History and Use of Fund Balance.**

As the County was finalizing it's fiscal '03 budget, the Sheriff requested an unrealistic increase of approximately \$56 million, including a "pay parity increase" for deputy jailers. In response, and recognizing that a new Sheriff would be taking office in September of '02, the County Commission left the Sheriff's budget at the prior years level. When Sheriff Mark Luttrell took office, he found that the pay parity

increases put his personnel cost beyond his budget. Even after making substantial budgetary reductions, an additional \$13 million was required to balance the Sheriff's budget and a transfer was approved from fund balance.

Several smaller issues compounded this problem. First and foremost, the Attorney General for the State of Tennessee opined that the County's litigation tax was excessive. Reducing this tax to the same level that the State charged cost the Shelby County \$4.5 million. Business tax collections slowed and finished the year \$2 million below budget. Other revenues, including State shared revenues, were also reduced, resulting in a use of fund balance totaling \$21.1 million. This left the general fund balance at only \$22.5 million and resulted in all three bond rating agencies adding a "negative outlook" to the debt ratings. Only an aggressive recovery plan averted a rating downgrade and only strict adherence to the plan will maintain our strong ratings going forward. The County has committed to increase the general fund balance over the next two years to 10% of expenditures, or approximately \$33 million. We expect to achieve a \$6 million increase this year (\$3.5 million budgeted and \$2.5 million from savings). A similar result will be necessary next year.

The above is a brief and not complete analysis of the county's financial picture. It does, however, point out that the County is supporting "growth industries" (justice, health and education) with inelastic revenues.

## **5. Property Tax Revenues.**

As you would expect, revenues have increased to meet expenditures. However, these increases have come primarily through property tax increases. If we adjust the increased value of the tax penny to exclude gains in reappraisal years, growth is in the 1% area.

As noted above, Shelby County Government presently raises the vast majority of its funding through property taxes. Assuming the County Commission chooses to continue its reliance on property taxes, Shelby County would be faced with the following debt service scenario:

For Fiscal Year 04-05, a \$.17 property tax increase will be needed to cover the new debt service requirements. By 2015, an additional \$.38 to \$.40 will be needed, unless new revenue sources can be found.

Several other options are open to County government, most of which require additional State Legislative action. Some of the options are as follows:

## **II. REVENUE SOURCES ALREADY UNDER CONSIDERATION**

### **1. Adequate Facilities Tax/Impact Fee.**

Such a tax or fee is based on issuance of building permits that could generate additional revenue. For example, an increase of \$1,000 per building permit would generate an additional \$4 million per year. This would require State Legislative action.

### **2. Real Estate Transfer Fee.**

An increase in the Real Estate Transfer Fee would require State Legislative approval. Assuming Shelby County could increase the tax on each real estate transfer, an additional \$5 million could be generated each year.

### **3. Payroll Tax.**

This privilege tax on employers is levied on the amount of wages they have paid to their employees. If a two-percent tax were imposed, approximately \$300,000,000 per year would be generated, although exemptions for certain category of employees can be included. Note that this assumes levy of the tax on a countywide basis. Presently, the Payroll Tax is a County Commission initiative and requires State Legislative approval.

## **III. OTHER POTENTIAL REVENUE SOURCES**

### **1. Occupational Privilege or Head Tax.**

This privilege tax is imposed upon businesses and employees, with exemptions for low-income employees. Normally, this tax is a flat dollar amount imposed on a monthly basis. Action by the Tennessee General Assembly would be necessary. Depending on the amount imposed upon employees and businesses, a privilege tax of this type could generate up to \$40 million per year.

### **2. Parking Tax.**

After obtaining State Legislative approval, a tax on companies that operate parking lots as well as businesses that provide parking for its employees could be imposed. The tax would apply to all parking for which a fee is paid, whether paid directly by users or leased, including parking supplied with the lease of non-residential space, where parking is a separately identified charge. Generally, a parking tax is set between 2% and 10% of the parking fee. (Ex. Miami, Florida imposes a parking tax, which generates \$10 million per year.)

3. **Amusement Tax.**

After obtaining State Legislative approval, a tax can be imposed upon the cost of admission to amusement events (concerts, movies, athletic events, nightclubs, etc.) and exemptions can be included. Other local governments have imposed amusement taxes as low as 2% and as high as 10%.

4. **SIN Taxes:**

a) **Cigarettes/Tobacco.**

A Private Act authorizes Shelby County to levy and collect a local Cigarette Tax of one cent per pack. This tax was collected for Shelby County by the state until 1994. It must be noted that in 1982, the State Attorney General issued an opinion questioning the constitutionality of the Cigarette Tax. The opinion indicated that in order to sustain the Cigarette Tax, Shelby County would have to establish a reasonable basis to impose the tax. A reasonable basis can be found in the public health arena. In order for Shelby County to raise the tax more than \$.01, State Legislative approval would be required.

b) **Beer.**

The State collects a tax of \$4.29/barrel of beer and redistributes part of the resources or funds to local governments. This fiscal year, Shelby County received only \$15,000 in Beer taxes from the State.

Presently, local governments are prohibited from taxing beer, and no governmental entity taxes beer by the drink. Thus, State Legislative action is required. If a \$4.29/Barrel Tax were imposed locally, approximately \$4.25 million would be generated.

c) **Wine and Spirits.**

The State collects taxes imposed upon sale of wine and liquor. Part of the revenue generated by Wine and Liquor taxes is earmarked for local governments. This fiscal year, Shelby County received \$580,000 from the State as its share of Wine and Liquor taxes. Of that, \$200,000 was distributed to local municipalities. In order to increase revenue from Wine and Liquor taxes, Legislation is required. A 5% local tax on liquor and beer by the drink would generate approximately \$3 million.

5. **Vector Control Cost Fee.**

By County ordinance, the Commission can impose a fee upon County residents by way of their MLGW bills. The purpose of this fee would be to recover Health Department Vector Control costs in fighting mosquito and rat populations. A \$.57 per month fee would generate approximately \$1,400,000 to both the City and the County.

6. **Archives Records Fee.**

This fee would defray the costs incurred in the operation of the County Archives Department. Based on 2002 – 2003 user levels, a \$2.00 rate would generate approximately \$1.2 million.

7. **Pretrial Investigation Fee.**

This fee would be imposed upon those who are convicted in felony or misdemeanor cases. Knox and Davidson County impose a \$35.00 fee on those convicted of felonies or misdemeanors, but only have a 36% collection rate. In Shelby County, such a fee would generate approximately \$430,000 per year.

8. **Crime Victims Center Fee.**

Similar to the above, a fee can be imposed upon individuals convicted of crimes to defray the operation costs for the Crime Victims Center. Similar fees in other jurisdictions have resulted in a 36% collection rate. A similar collection rate in Shelby County would produce approximately \$470,000 per year based on a \$38.00 fee.

**IV. OTHER**

1. **Local Wheel Tax.**

Currently, the Wheel Tax in Shelby County is set at \$50.00 per vehicle. If increased to \$70.00 per vehicle, an additional \$12 million would be generated per year. Only one other county has received legislative authority to increase its Wheel Tax rate to \$70.00. However, that county has not chosen to actually make the increase.

2. **Telecommunication Gross Rental Fee.**

Shelby County has authority to charge BellSouth Communications a Gross Rental Fee relative to the approximately 65,000 phone lines in unincorporated Shelby County. This would produce approximately \$1.2 million in annual revenue. It must be noted that BellSouth challenged the City of Memphis' ability to levy the fee. The trial court ruled in favor of the City of Memphis, and the case remains on appeal.

3. **Cable TV Franchise Tax.**

Currently, Shelby County receives a franchise fee equal to 5% of the gross annual revenue of any company holding a cable TV franchise. Assuming the county increased the percentage to 7% of the gross annual revenues (the County Commission could do so by ordinance), the estimated revenues would be approximately \$400,000.

***Alternatives to Property Tax Increase –  
Revenue Options***

<b>Alternative</b>	<b>Description</b>	<b>Action Required to Implement</b>	<b>Projected Revenue</b>
<b>Beer, Wine, Liquor Tax</b>	Tax on wine and liquor (per gallon) and beer (currently, state law prohibits local taxation.)  Also, tax on liquor by the glass.	Would require approval by legislature.	For wine and liquor, if we taxed 25% of what the state taxed at \$1.10/gallon wine and \$4.29/gallon of spirits, would generate approximately <b>\$250,000</b> annually. Beer by the drink: Liquor by the drink: Assuming 5% per drink, would generate: Approximately \$3 million
<b>Head Tax</b>	Occupational privilege tax imposed on businesses and employees.	Would require state legislation.	Assuming we followed Denver, Colorado model (employee pays \$5.75/month, business pays \$4.00/month) on employees earning over \$500/month-- \$117/year X 350,000 employees = <b>\$40,950,000.</b>
<b>Cigarette Tax</b>	Tax on each pack of cigarettes. Shelby County currently has authority by Private Act to charge 1¢ /pack but stopped doing so in 1994 due to questions about constitutionality.	Could levy 1¢ at any time. To increase above 1¢, must get amendment to Private Act through General Assembly .	\$400,000
<b>Real Estate Transfer Fee</b>	Tax on privilege of recording instruments that transfer interests in real property. Past proposal was to impose at rate authorized by state, which is 37 cents per \$100 of value.	Requires approval by state legislature -- amendment to T.C.A. Title 67 Chapter 4 Part 5.	\$5.6 Million
<b>Payroll Tax</b>	Privilege tax on employers levied on wages paid to employees.	Would require state legislation.	At two percent rate, would generate approximately <b>\$300,000,000</b> per year based on 500,000 employees countywide with average wage of \$37,232 annually.



<b>Amusement Tax</b>	Tax on cost of admission to amusement events (concerts, movies, athletic events, nightclubs, etc.)	Would require state legislation.	Ranges from 2% to 10% nationwide.
<b>Parking Tax</b>	Tax on companies that operate parking lots and on businesses that provide parking for employees.	Would require state legislation.	Range from 3% to 30% nationwide. (Miami, Florida generates \$10 million.)
<b>Adequate Facilities Tax/ Impact Fee</b>	These types of fees are imposed on new development to pay for infrastructure and/or services necessitated by the new development.	Requires approval by state legislature through a private act.	<b>\$ 5 million per year</b> Preliminary calculation estimate, based on \$1.00¢/sq. ft. residential, 50¢/sq.ft. commercial, 10¢/sq. ft. industrial
<b>Records Management Fee</b>	This fee would defray archival costs. The County now incurs net costs of \$250,000. Similar to other “user fees”	Would require state legislation.	At a \$2.00 rate, this would generate \$1.2 million at ‘02-’03 user levels.
<b>Criminal Defendant Fee for Crime Victims Center</b>	Fees on convicted criminals to pay for Crime Victims Center. Approximately 34,000 convictions in ‘03-’04. Would be collected by court clerks. Judges reluctant to increase fees.	County Ordinance.	\$470,000 @ \$38 (36% collection rate)
<b>Pre-trial Investigation Fee</b>	Similar to above, charged to convicted felony and misdemeanor offenders. Knox and Davidson charges \$35.	County Ordinance.	\$436,000 @ \$35 (36% collection rate)
<b>Vector Control Cost Recovery Fee</b>	Fee placed on MLGW bills.	County Ordinance.	\$6.80 (\$.57 p/mo.) would generate \$1,409,000 to to both City and County (based on funding agreement for Health Dept.)